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SUBJECT: JORDAN FUEL PRICE HIKES, "SAFETY NET" IMPLEMENTED

REF: (A) AMMAN 2496; (B) AMMAN 2452; (C) AMMAN 1986

SENSITIVE BUT UNCLASSIFIED. HANDLE ACCORDINGLY.

¶1. (SBU) SUMMARY: Businesses, consumers, and government offices were moving rapidly April 9 to adjust to the fuel price hikes approved by the cabinet April 8 and implemented at midnight (see ref's). In addition to a JD 61.7 million ($87 million) "social safety net" program (Ref C) already in effect, the GoJ plans to spend JD 38.8 million ($54.7 million) this year to keep electricity rates constant, bolster wheat subsidies for bread, and pay for the ancillary charges connected to government-controlled gas transportation and distribution. Having saved the budget an annual expenditure on oil subsidies of $415 million (Ref C), the GoJ committed $142 million in one-time costs, much of which may be continued if the price of oil remains above $60 per barrel. Business contacts took the fuel hike regime in stride, looking to how it would affect domestic and international competitiveness. QIZ owners in the low-margin textile business complained the new round of subsidies hurt recruitment of Jordanian workers to their factories. Press coverage and commentary reflected public skepticism. END SUMMARY.

¶2. (SBU) Rate hikes were in line with plans that had been circulated since March (Ref C), except that unleaded and premium gas increases were slightly higher than originally planned, apparently to offset what turned out to be the lowest rate increase of all - an 11.7 percent increase in regular gasoline to $2.30 a gallon. (A listing of the rates is contained in para 11.)

¶3. (U) In public statements explaining the cabinet decision, the GoJ emphasized its commitment to lifting "severe pressures" on the budget resulting from fuel subsidies. The government's Petra News Agency announcement explicitly linked this price hike to a series of such increases in a strategy to completely liberalize the fuel derivatives market by 2007. GoJ announcements also highlighted cabinet decisions to put off an increase in electricity rates, and to further subsidize the price of wheat, thus effectively holding bread prices steady.

¶4. (U) Press coverage of the price hike coupled factual reporting with sample reactions by consumers, business leaders and government officials. Separate reports of Islamist-led demonstrations in reaction to the hikes' implementation were buried on inside pages. Initial editorial commentary reflected the public's perception of inequity. Chief Editor Taher Odwan wrote today in the independent opposition Arabic daily Al-Arab Al-Yawm: "The government's justifications for stopping a large part of the support to the oil bill are very objective.., but that does

not nullify the fact that the citizen, at the end of the day, is the one who is paying the price." He concludes with a strong-worded proposal for tax reform to capture a greater share of capital gains.

Other Subsidies, Social Safety Net

¶5. (SBU) According to Ministry of Finance Secretary General Hamed Kasasbeh, the GoJ will spend a total of JD 61.7 million ($87 million) for a "social safety net" program (Ref C) that officials confirmed had begun April 9. Kasasbeh also listed JD 38.8 million ($54.7 million) in expenditures to pay for the cabinet-approved continuation of bread and electricity subsidies and other aspects of the government-controlled fuel refining and distribution system, as follows:

-- JD 4.8 million to go to the Ministry of Industry and Trade (which purchases and sells wheat at reduced prices) to lower the cost of wheat by 11.56%;

-- JD 24 million to electricity generating companies to keep electricity prices constant this year (avoiding a price increase that had been planned earlier for 2006);

-- JD 4.5 million to oil and gas distributors, to offset their fuel costs and extra financial burdens; and

-- JD 5.5 million to offset added costs of transporting crude oil via truck from Aqaba to the refinery in Zarqa.

¶6. (SBU) An aide to Ministry of Finance SecGen Kasasbeh explained to Econoff that a "social safety net" program would provide funding to Jordan's lower-income families. He said a total 710,000 families (3.6 million individuals) were estimated to qualify for the program aimed at families with a total income of less than JD 1,000 ($1,410). The aide said the program would continue for as long as international oil prices stood above $60 per barrel. The formula for relief was set in three brackets of JD 400. Family members with a total annual income of less than JD 400 ($564) could qualify for a payment of JD 25 each, up to a family limit of JD 150 ($212). This payment would be split, half paid in April and half in September. The per-person payments go down to JD 15 for family member income brackets of JD 400-800, and JD 10 for JD 800-1000.

¶7. (SBU) Payments will be made either through government payroll and pension systems or, for private sector families, at Jordan's 400 post offices. Application forms were available at post offices on April 9, and some families had already filled them out and submitted them, according to the Ministry of Finance Sales and Income Tax Department, which will vet such private applications against tax records and make each payment through the same post office where application was made.

Business Reaction

¶8. (SBU) Rudain Kawar, CEO of Kawar Group which includes a major transportation logistics company, said that he expected truckers to pass on the fuel rate increases almost immediately. Kawar has a profitable business refining vegetable oil, mainly for export via truck to Iraq. The company board had already met, he said, to review general plans for adjusting to the fuel price hikes. He believed the board would soon settle on a salary/wage price increase in the range of 10-15 percent. This would help employees deal with the hit to their household budgets, including expected inflation, he noted. In the end, the prices his company charged in Iraq for vegetable oil would have to go up, which would make the company less competitive with others, including those who produce or trans-ship vegetable oil through Kuwait, he concluded.

¶9. (U) Halim Abu Rahmeh, CEO at the Jordan Exporters

Association, said he believes that while in the short run Jordanian exporters would feel the negative impact of the price increases of fuel products, the long-term effect would be neutral since fuel product prices would reflect global rates and Jordanian exporters would become at par with world producers. He added that Jordanian businesses need to find their comparative advantage. A CEO of a major QIZ factory complained that the government's constant program of subsidies made it difficult to recruit Jordanians. Instead, the predominantly garment manufacturers were hiring overseas contract workers who could produce at three times the rate of the average Jordanian. The CEO is working with 35 other company heads to find 5,000 more Jordanians to join the factories. Subsidies were not helping, he noted.

¶10. (SBU) Juma Abu Hakmeh, Director General at the Jordan Chamber of Industry, believes the effect of fuel hikes is decidedly negative, and estimates the cost to the manufacturing industry to be high. He emphasized the added cost to industries that rely on fuel oil or diesel to heat up furnaces, such as pottery, ceramics, steel and cement. Fuel energy makes up about 30% of the cost of such industries - thus, their cost would go up by about 10%. Abu Hakmeh estimated that the inflationary effect would add between 1.5-2.0 percentage points to the annual inflation rate. He did not hear of any strikes in the manufacturing industry in response to an IAF call for such industrial actions.

Oil Derivative Rate Hikes

¶11. (U) The rate hikes for Jordan's most commonly used oil fuel derivatives are listed below. Ministry of Energy SecGen Khaldoun Qutishat said some of these prices were already using an "international parity pricing" (IPP) basis (Ref B) in a pilot program (jet fuel, heavy fuel for industry, and asphalt). The cabinet has still not taken a decision on IPP pricing, he added.

Gasoline (regular grade) increased 11.7% from 0.385 to 0.430 JD/liter (equivalent to roughly $2.30/gallon)

Gasoline (super grade) increased by 19.8% from 0.505 to 0.605 JD/liter (roughly $3.23/gallon)
Gasoline (unleaded) increased by 17.4% from 0.545 to 0.640 JD/liter (roughly $3.42/gallon)

Diesel for vehicles and heating increased by 43.2% from 0.220 to 0.315 JD/liter (roughly $1.68/gallon)

Diesel for ships, local and foreign, did not change and stayed at 370 JD/metric ton (roughly $522.6/metric ton)

Fuel oil for electricity increased 65.0% from 100 to 165 JD/metric ton (roughly $233.05/metric ton)

Fuel oil for industrial use and for local and foreign ships increased 25.0% from 180 to 225 JD/metric ton (roughly $317.80/metric ton)

Jet Fuel for the use of RJ (Royal Jordanian Airline) increased 7.2% from 0.345 to 0.370 JD/liter (roughly $1.98/gallon)

Jet Fuel for foreign airlines increased 2.7% from 0.365 to 0.375 JD/liter (roughly $2.00/gallon)

Jet Fuel for local airline, other than RJ, increased 1.4% from 0.365 to 0.370 JD/liter (roughly $1.98/gallon)

Jet Fuel for chartered flights increased 1.3% from 0.385 to 0.390/liter (roughly $2.09/gallon)

Kerosene increased 43.2% from 0.220 to 0.315 JD/liter (roughly $1.68/gallon)

Cooking gas (liquid propane ga), per 12.5KG cylinder,

increased 13.3% from 3.75 to 4.25 JD/cylinder (roughly $6.00/cylinder)

Asphalt increased 27.2% from 173 to 220 JD/metric ton (roughly $310.73/metric ton)

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